



Rosalind M. Hewsenian
Managing Director

August 29, 2005

Mr. Mark Anson
Chief Investment Officer
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Re: Spring Fed Pools – US Equity Enhanced Indexing and International Equity

Dear Mark,

You requested Wilshire's opinion with respect to the selection of the managers interviewed and evaluated in the US Enhanced Indexing and International Equity Spring Fed Pools. We support Staff's recommendation for the constituents of the pool of managers. Wilshire has independently reviewed each firm and participated in the interviews with Staff. We have provided our commentary on the firms.

Managers Staff recommends for the Pool

The managers Staff recommends for the pool vary with respect to the stability of their organizations, the quality of their investment products and their fit specifically for CalPERS. All of the firms recommended by the Staff have strong organizations with stable leadership or strong teams that support the recommended product with the exception of QMA. QMA is in the process of losing a key member to retirement. While QMA's enhanced indexing process is quantitative and should be minimally disrupted by this departure, it warrants further vigilance.

Acadian

Acadian Asset Management manages an international product being considered for the pool. Acadian, located in Boston, MA, is a subsidiary of Old Mutual Asset Management and maintains considerable autonomy in conducting its business and in its investment strategies. Acadian uses a quantitative approach to manage this international product and models 30-plus factors for thousands of stocks in the universe. Acadian emphasizes that its quantitative approach allows thorough attribution analysis to be conducted, which leads to process improvements and model refinements. Acadian's process is highly disciplined but customizable for client mandates; therefore, the firm has the ability to abide by CalPERS Permissible Equity country list.

AQR

AQR manages an international product being considered for the pool. AQR was founded by Cliff Asness, who headed quantitative equities at Goldman Sachs and is located in Greenwich, CT. The firm recently sold a 25% stake to AMG, which raises some question as to the firm's future plans. However, Mr. Asness states that no future sales are planned and that the initial sale was a strategy to diversify the owners' wealth. The firm manages a quantitative, risk-controlled investment approach. AQR's quantitative models focus on value and momentum and the firm is continually trying to improve the models through additional research. The investment process makes use of derivative securities to a greater extent than many other managers do – usually in a range around 15% of the portfolio. AQR uses an internal attribution system to measure the success of its primary and secondary models. This allows the firm to identify its sources of alpha and has led to on-going improvements and enhancements to the investment process.

QMA

QMA manages an international product being considered for the pool. QMA is a wholly-owned subsidiary of Prudential Investment Management and is located in Newark, NJ. Jim Scott, one of the firm's founders, recently announced his intention to retire. This retirement was both sudden and unexpected. While the effects of this transition are unclear, the impact on QMA's quantitative investment process is likely to be negligible. QMA has a very academic culture with four of the five remaining investment professionals having Ph.D.'s with backgrounds ranging from nuclear physics to behavioral finance. QMA's process separates fast-growing companies and slow-growing companies and employs different evaluation methodologies for each group. The firm uses an internal optimizer for portfolio construction with the being a benchmark-constrained, risk-controlled portfolio. The firm uses an external attribution system to confirm where it is adding alpha and to help refine and improve its process.

T. Rowe Price

T. Rowe Price manages a domestic product being considered for the pool. T. Rowe Price is publicly traded and located in Baltimore, MD. This enhanced index product is one of the relatively few enhanced index products to use in-house fundamental research to create security forecasts. Each industry analyst is charged with selecting roughly the top half of securities within their industry universe. The product makes use of approximately 30 analysts with a median experience of more than 7 years. Three "Portfolio Coordinators" ensure that the product meets its overall sector control requirements. Attribution takes place at both the product level and the industry level in order to grade and guide the analysts making security selections. T. Rowe Price will not entertain the use of a performance fee for its compensation.

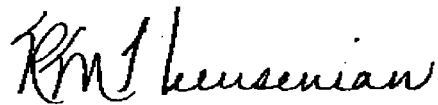
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Conclusion

Some of the firms have unique issues to consider, though these have been weighed against the strengths of the firms, resulting in their positive recommendation. While the current recommendation is only to populate the pool, we believe these issues bear continued scrutiny once the pool has been populated.

Should you require anything further, please do not hesitate to contact us.

Sincerely,

Handwritten signature of R. M. Hensenian in cursive script.